

VZCZCXRO6752  
PP RUEHLMC  
DE RUEHUM #0774 2850844  
ZNR UUUUU ZZH  
P 120844Z OCT 06  
FM AMEMBASSY ULAANBAATAR  
TO RUEHC/SECSTATE WASHDC PRIORITY 0453  
INFO RUEHMO/AMEMBASSY MOSCOW 1605  
RUEHBJ/AMEMBASSY BEIJING 5269  
RUEHUL/AMEMBASSY SEOUL 2497  
RUEHKO/AMEMBASSY TOKYO 2266  
RUEHOT/AMEMBASSY OTTAWA 0349  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCPODC/USDOC WASHDC 1110  
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC 0373

UNCLAS ULAANBAATAR 000774

SIPDIS

SIPDIS

STATE PASS DOC/ITA, USTR, USTDA, OPIC, AND EXIMBANK  
STATE FOR EAP/CM, EB/TPP, OES/IHA  
USAID FOR ANE CALISTA DOWNEY

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [PGOV](#) [MG](#)

SUBJECT: High Commodity Prices Create Rosey Optimistic Figures

Refs: (A) Ulaanbaatar 576, (B) Ulaanbaatar 621

11. Summary and comment: Mongolian government economic figures confirm that high commodity prices continue to fill government coffers. The budget surplus in the first eight months of 2006 was US \$190 million, or 10% of official GDP. Rising commodity prices on the country's principle exports have allowed Mongolia to cut its trade deficit to a paltry US \$4.6 million. Other economic indicators are also positive, including moderate inflation and sharply higher international tourism arrivals. The problem: Despite the risk of commodity prices slumping again, Mongolia's politicians cut tax rates sharply this summer and are planning to continue sharply raising social welfare payments. The budget now in preparation aims at a 4% deficit -- and that's if commodity prices stay high. End summary and comment.

12. The Mongolian Statistical Office reported in mid September that, during the first eight months of 2006, Mongolia's general government budget overall balance was in surplus by MT 217.4 billion (US \$186.6 million), or almost 10% of GDP. Total tax collections shot up by 51.9% compared with the same period in 2005. Taxes on foreign trade increased by 27.6%; value added taxes rose by 31.8%; and excise taxes climbed by 23.0%.

13. The consumer price index increased by a modest 4.7% from the corresponding period of last year -- but was up 46.9% since 2000, reflecting last year's impact of higher petroleum and energy costs.

14. Mongolia's foreign trade is nearly in balance, with an extremely modest deficit of US \$4.6 million for 2006 despite imports increasing by 32%. The value of exports rocketed by 60.2%, thanks mainly to spiking commodity prices for Mongolia's main exports of copper and to a lesser extent gold. Copper concentrate exports rose 12.1% by volume over last year, while prices jumped 91% (from an average of US \$513 per ton in the first 8 months of 2005 to \$982 this year). Mineral exports overall rose US \$288.7 million. (Comment: Under other circumstances, export increases would have been much greater. Septel notes that a windfall profits tax passed in May has led so far to huge stockpiles as producers hope for repeal or attempt to figure out ways around the tax. With gold sales down by 12 tons over last year, but production continuing unabated, estimates are that \$227 million of gold, or more than 12% of GDP, is now being held unsold.)

15. Industrial output rose 3.2% from the same period last year (up 14.7 million USD to 469.6 million USD) led by increases in several areas such as apparel production, clothing accessories, wood products, leather products, food a beverage among others.

Production of main items of industrial products, electricity, thermal energy, copper concentrate, molybdenum concentrate, crude oil, knitted goods, medical tablets, liquid medicine, meat, spirit, alcohol, bakery products, cement, metal steel, metal foundries, combed down, increased by volume.

¶6. During the first 8 months of 2006, international air passengers grew by 29.5%, as tourists flocked in for Mongolia's 800th anniversary celebrations. Overall, the transportation sector saw modest increases in the amount of freight and passengers carried, with rail networks seeing a 2.7% increase in freight and a 0.3% increase in passengers serviced compared to figures over the same period in 2005. The month of August, 2006, however recorded larger numbers in air freight and passengers year on year with an increase of 4.8% in freight and 10.8% in passenger traffic.

¶7. The government statistics showed that the number of registered unemployed decreased by 2,100 persons (5.9%) to 33,400 persons from the same period last year. Women made up 57.1% of the unemployed. Over the course of 2006, more than 26,000 registered unemployed found work, 11.3% in government or state-owned enterprises and 88.7% in the private sector. (Note: As in other developing economies, the official figures fail to count many persons who are unemployed.)

MINTON